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Message Text

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72-S
ACTION EUR-25

INFO OCT-01 ISO-00 CCO-00 NSCE-00 AID-20 CEA-02 CIAE-00

COME-00 EB-11 EA-11 FRB-02 INR-10 IO-14 NEA-10

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SIL-01 OMB-01 SCEM-02 INT-08 CEQ-02 DODE-00 EPA-04

L-03 NSF-04 NSC-10 PM-07 SCI-06 SS-20 SSO-00 USIE-00

INRE-00 STR-08 PA-04 PRS-01 DRC-01 AF-10 /222 W
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FM USMISSION OECD PARIS
TO SECSTATE WASHDC IMMEDIATE 1052
INFO AMEMBASSY BONN
AMEMBASSY LONDON
AMEMBASSY PARIS
AMEMBASSY THE HAGUE
AMEMBASSY ROME
AMEMBASSY BRUSSELS
AMEMBASSY TOKYO
AMEMBASSY JIDDA
AMEMBASSY TEHRAN
AMEMBASSY KUWAIT
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DEPARTMENT PLEASE REPEAT IMMEDIATE TO THE SECRETARY
FOR THE SECRETARY FROM UNDER SECRETARY CASEY

ECOTO 5

E.O. 11652: N/A
TAGS: ENRG, OVIP, GR
SUBJECT: BONN TALKS ON OIL SITUATION

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1. SUMMARY: SENIOR OFFICIALS IN GERMAN FOREIGN OFFICE

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AND MINISTRY ECONOMICS TOLD ME THAT, WHILE GERMANY'S OIL SUPPLY SITUATION BECOMING SERIOUS AND PLANS BING COMPLETED FOR HANDLING 10-15 PER CENT REDUCED CONSUMPTION, THEY DID NOT WANT "LOUD" PUBLIC SHARING GERMANY'S BURDEN BY ITS EUROPEAN NEIGHBORS BUT PREFERRED A "VERY SILENT" SYSTEM OF COOPERATION RELYING ON COMPANIES TO DO NECESSARY SHIFTING OF SUPPLIES. HOWEVER, IF LIBYA MOVED TO EMBARGO GERMANY, THIS APPROACH WOULD HAVE TO CHANGE SINCE SHORT-FALL WOULD THEN REACH 40 PERCENTOF CONSUMPTION. POSSIBLE WEAKNESS ARAB OIL WEAPON APPEARS TO SHOWING UP IN DIFFI-CULTINES APPLYING RIGHT AMOUNT PRESSURE AT RIGHT TIME WITH SUFFICIENT COORDINATION. RELUCTANT AS THEY ARE TO REACT, EUROPEAN NATIONS CAN BE PUSHED TOO FAR TOO FAST. GERMANS WANT GET TOGETHER WITH OUR ENERGY R&D EXPERTS TO SEE WHAT US AND GERMANY CAN USEFULLY DO TO DEVELOP MORE QUICKLY ALTERNATIE SOURCES.

2. ON NOVEMBER 6 I TALKED IN BONN WITH AMBASSADOR HERMES, ASSISTANT SECRETARY FOR ECONOMICS IN FOREIGN OFFICE, AND LANTZKE, ASSISTANT SECRETARY FOR ENERGY IN MIN ECON, ABOUT CURRENT AND LONGER-RUN ENERGY PROBLEMS.

3. CURRENT SUPPLY SITUATION: HERMES ASKED FOR OUR ASSESS-MENT ARAB OIL PRODUCTION CUTBACKS AND EMBARGOES. I REPLIED THAT WE HOPED HE PERIOD OF THESE SUPPLY REDUCTIONS WOULD BE CURTAILED BUT HAD TO ASSUME THEY WOULD BE EXTENDED AND TO PLAN FOR THIS WORSE CASE. WE HOPEFUL, I SAID, THAT YOU WILL HAVE SUCCESS IN PERSUADING ARABS THEY NEED US FOR TERRITORIAL SOLUTIONS THEY WANT AND THUS THEIR CONTINUING AND INCREASING OIL PRESSURE COUNTERPRODUCTIVE TO EXTENT IT BECOMES INTOLERABLE FOR US CARRY THROUGH WITH EXTREMELY DELICATE AND PANSTAKING PEACE-MAKING ROLE. LANTZKE EXPRESSED SURPRISE THAT SAUDIS HAD MOVED OUT IN LEAD AS HEAVIETS PRESSURER AND ASKED IF THEY WOULD MAKE MOVES THAT WOULD SERIOUSLY DAMAGE CONSUMER COUNTRIES. I RESPONDED THAT SAUDIS HAD ENTERED ONLY RELUCTANTLY INTO USE OIL AS INSTRU-MENT OF POLITICAL PRESSURE BUT THAT IN PRESENT EMOTIONALLY CHARGED CIRCUMSTANCES HIGHLY SPECULATIVE TO TRY READ ANOTHER MAN'S (FAISL'S) MIND. GERMANS SAID THEY SAW SUPPLY SITUATION IN SAME WAY AND AGREED THERE ARE PRECIOUS FEW POINTS FOR CONFIDENTIAL

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EFFECTIVE COUNTER PRESSURE BY CONSUMERS; LANTZKE NOTING THAT TIME FRAMES FOR ARABS AND CONSUMERS DIFFERED IN TERMS DOING WITHOUT INCOME AND OIL RESPECTIVELY.

4. HERMES SAID EUROPE NOW MORE EXPOSED THAN US AND ASKED WHAT OUR THOUGHTS WERE ON OIL SHARING. I REPLIED THAT AS OF NOW US WAS FACING LARGER OIL CONSUMPTION LOSSES THAN EUROPE OR JAPAN. AS FOR OIL SHARING, I RESPONDED THAT IT

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HAD BECOME SOMEWHAT ACADEMIC SINCE NO OTHER OECD MEMBER
WANTED TO RUN RISK SHARING WITH ARAB EMBARGO TARGETS, SUCH
AS THE US AND NETHERLANDS, AND THERE SEEMED TO BE AN
INCLINATION TO BACK AWAY FROM AUTOMATIC TRIGGERING FORMULAS,
THE CONSEQUENCES OF WHICH WERE, AT THE LEAST, UCERTAIN.
TO THE EXTENT SHARING TAKES PLACE IT WILL PROBABLY HAVE TO
BE ON AD HOC BASIS. MOST IMPORTANT IT SEEMED TO ME WAS
SHOW OF STRONG UNITED FRONT BY CONSUMERS IN ORDER INDICATE
TO ARABS THEY CANNOT SHOP THEM UP. BOTH GERMANS AND BRITISH
ACCEPT THIS ONLY AS OBJECTIVE SUBORDINATE TO THAT OF
KEEPING OIL FLOWING AS MUCH AS POSSIBLE, HAVING OIL COMPANIES
MOVE OIL AROUND IN INCONSPICUOUS MANNERTO TAKE CARE UN-
FAVORED AND EMBARGOED EUROPEANS. LANTZKE STATED
GERMAN GOVERNMENT DID NOT WANT "LOUD" PUBLIC SHARING ON
COMMON BASIS BUT A "VERY SILENT" SYSTEM OF COOPERATION THAT
PRODUCED AS MUCH SUPPLY AS POSSIBLE.

5. LANTZKE PRESENTED FOLLOWING INFORMATION ON GERMAN
GOVERNMENT'S PREPARATIONS FOR MEETING 10 - 15 PERCENT CUT
IN CRUDE AND PRODUCT FLOWS ANTICIPATED AS OF NOVEMBER, EVN
WITH "EUIET"COMPANY HELP. ALREADY OIL COMPANIES IN
GERMANY ARE OPERATING UNDER GOVERNMENT GUIDELINES. WORK
IS NEARING COMPLETION ON LEGISLATIVE AND REGULATORY MEASURES
FOR CONSERVING ENERGY, STARTING FROM VOLUNTARY BASIS AND
GOING RATHER QUICKLY TO STEP BY STEP MANDATORY SYSTEM, WITH
RATIONING COMING LAST AS GOVERNMENT DOES NOT WANT TO GO
THIS ROUTE UNLESS FORCED TO. SUH A PROGRAM IS REQUIRED
SINCE WITHOUT IT, STOCKS WOULD RUN OUT BY END MARCH OR
APRIL. IT POSSIBLE TO CUT BACK GERMAN CONSUMPTION
10 - 12 PERCENT BUT AFTER THAT SHORTAGES BEGIN HIT INDUSTRY,
FIRST CHEMICAL IN TERMS NAPTHA AND THEN WINTER HEATING
REQUIREMENTS AND INDUSTRY IN TERMS HEAVY AND LIGHT FUEL OILS
AND NAPTHA.
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6. LANTZKE IN RESPONSE QUESTIO
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ACTION EUR-25

INFO OCT-01 ISO-00 CCO-00 NSCE-00 AID-20 CEA-02 CIAE-00

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NSAE-00 RSC-01 OPIC-12 SPC-03 TRSE-00 CIEP-02 LAB-06

SIL-01 OMB-01 SCEM-02 INT-08 CEQ-02 DODE-00 EPA-04

L-03 NSF-04 NSC-10 PM-07 SCI-06 SS-20 SSO-00 USIE-00

INRE-00 STR-08 PA-04 PRS-01 DRC-01 AF-10 /222 W
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FM USMISSION OECD PARIS
TO SECSTATE WASHDC IMMEDIATE 1053
INFO AMEMBASSY BONN
AMEMBASSY LONDON
AMEMBASSY THE HAGUE
AMEMBASSY PARIS
AMEMBASSY ROME
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ECOTO 5
7. COMMENT: OBVIOUSLY GERMANS AND OTHER EUROPEANS NOT NOW READY REDUCE THEIR SUPPLIES OIL BY TAKING STEPS THAT COULD PROVE PROVOCATIVE TO ARABS. THEY WORRIED, HOWEVER, THAT CONTINUED AND EVER HEAVIER ARAB PRESSURE WILL MAKE THEIR PREFERRED QUIET RESPONSE UNWORKABLE. POINT COULD COME WHEN SUPPLY SITUATION BECOMES SO INTOLERABLE AS PROVOKE RELUCTANT EUROPEANS INTO UNIFIED COUNTERMEASURES AGAINST ARABS. SITUATION WILL HAVE GET CONSIDERABY WORSE BEFORE THIS HOWEVER. BUT POINT IS THAT, WHILE ARABS HAVE UNTIL RECENTLY
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SHOWN UP WELL IN THE SOPHISTICATIONAND EFFECTIVENESS THEIR OIL STRATEGY, THEIR TACTICAL USE OF OIL FOR PRESSURE AND LEVERAGE IS BEGINNING SHOW SIGNS WEAKNESS IN LACK OF SENSE OF TIMING AND COORDINATION AND TOO MUCH HEAVY HANDEDNESS.

8. LONGER-RUN ENERGY PROBLEMS. IN RESPONSE TO HERMES QUESTION OF WHETHER WESTERN COUNTRIES SHOULD ASSUME STAGNATION OR FURTHER DECREASES ARAB OIL PRODUCTION AFTE CURRENT EMBARGOES LIFTED, I SAID WE ANTICIPATED TENDENCY TOWARD FLATTENING OUT OF MIDDLE EAST OIL SUPPLY CURVES FOR ECONOMIC AND CONSERVATION REASONS. THEREFORE, MAJOR DEVELOPED CONSUMERS WILL HAVE TO BE MORE ENERGETIC IN CONVINCING THESE PRODUCERS THAT INCREASED OIL OUTPUT IS WAY FOR THEM ACHIEVE STAKE THEY WILL NEED IN WORLD FUEL ECONOMY AS ROLE OF

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FOSSIL FUEL DIMINISHES. LANTZKE STATED THAT RATES OF
PRODUCTION NOW PROJECTED FOR SOME PERSIAN GULF PRODUCERS
WILL NOT BE REACHED --E.G., SAUDI ARABIA.

9. LANTZKE ASKED IF US THOUGHT CONSUMER GOVERNMENTS
WOULD HAVE PLAY LARGER ROLE IN OIL COMPANY-PRODUCER NEGO-
TIATIONS. I SAID YES, BUT I WAS DOUBTFUL HOW MUCH GOVERN-
MENTS COULD EFFECTIVELY CONTRIBUTE IN NEGOTIATIONS
THEMSELVES. PUBLIC OPINION CAN BE EXPECTED PUST FOR
GREATER GIVERNMENT ROLE, BUT GUIDELINES TO COMPANIES NOT
LIKELY BE VERY USEFUL OR HELPFUL, WHILE ORGANIZATION OF
CONSUMER GOVERNMENTS TO CONTROL MARKETS NOT LIKELY
TO GET SUPPORT OR WOK WELL IN PRACTICE IF IT DID. GOVERN-
MENTS CAN AND SHOULD AFFECT THE CLIMATE AND SETTING IN WHICH
NEGOTIATIONS TAKE PLACE. IT IS NECESSARY KEEP OIL INDUSTRY
FUNCTIONING. FUNDAMENTALS OF GOVERNMENT ACTION ARE IN
SUPPLY AND DEMAND AREA. CONSUMPTION MUST BE REDUCED AND MADE
MORE EFFICIENT. DOMESTIC PRODUCTION AND EXPLORATION MUST BE
PUSHED, ESPECIALLY IN US. SIGNS OF CLEAR SENSE PURPOSE AND
DIRECTION IN THESE REGARDS BOUND HAVE BENEFICIAL EFFECT ON
PRODUCERS AND OTHER CONSUMERS. AS HARD AS THEY MAY BE ON
US IN SHORT-RUN, CURRENT REDUCED SUPPLIES AND SBSTANTIALLY
INCREASING CRUDE OIL PRICES SHOULD BE HELPFUL IN ACCELERATING
EFFORTS NEEDED REDUCE CONSUMPTION AND INCREASE PRODUCTION.
LANTZKE HOPED EFFECTS CURRENT SITUATION WOULD SPEED UP
RESOLUTION NUCLEAR POWER PLANT SITING AND ENVIRONMENTAL
PROBLEMS SINCE GERMANY PROJECTING 60 PERCENT ITS ELECTRICITY
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FROM THIS FORM ENERGY IN 1980.

10. R&D: I NOTED IMPORTANCE OF JOINT R&D AND EXPLORATION AND
EXPLOITATION NEW RESOURCES, ALONG WITH SHARING IN EMERGENCIES,
AS MEANS OF SHOWING COMMON FRONT OF CONSUMERS. WE COULD,
I SAID, SEND ENERGY RESARCH TECHNICIANS TO GERMANY TO TALK
WITH THEIR COUNTERPARTS AND SEE WHAT WE MIGHT BE ABLE TO
DO TOGETHER. LANTZEKE AND HERMES FAVORED THIS, AND LATTER
SAID HE WOULD HELP ORGANIZE SUCH EXCHANGES. LANTZKE SAID
THAT GERMANY DOING SIFNIFICANT R&D ON POWER STATIONS FIRED
BY GAS MADE FROM COAL AS ANSWER TO BEST ENVIRONMENTAL WAY USE
COAL FOR ENERGY.
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